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TAGS: PREL PGOV SR

SUBJECT: ANOTHER FACE OF SERBIA: AMBASSADOR'S MEETING WITH PRIME MINISTER CVETKOVIC

REF: A. BELGRADE 51

1B. BELGRADE 95

1C. BELGRADE 75

1D. 08 BELGRADE 1313

1E. 08 BELGRADE 1026

Classified By: Ambassador Cameron Munter; reasons 1.4 (B) and (D).

11. (C) Summary: In a February 9 meeting with Prime Minister Cvetkovic, the Ambassador underscored U.S. frustration with the Serbian government's inflexible approach to Kosovo issues and proposed a new emphasis on economic issues in our bilateral relations. Cvetkovic expressed interest in meeting with U.S. officials in Washington and called for a more balanced U.S. approach to the countries of the Balkans. The Prime Minister described his efforts to coordinate an effective government response to the global economic crisis that was not at odds with the principles of a market economy.

He underscored the need for Serbia's leading business figures to become responsible economic actors, and outlined plans to address corruption. Cvetkovic described efforts underway to increase the efficiency of Parliament, noting public pressure for the government to "deliver" on its European agenda in the coming months or face the wrath of voters. End Summary.

Moving Beyond Kosovo

12. (C) The Ambassador opened the meeting by expressing U.S. frustration with the approach of the Serbian government, specifically Foreign Minister Jeremic, on Kosovo. After the UNGA vote to refer the Kosovo question to the International Court of Justice, and the lengthy process to obtain Serbia's support for EULEX deployment, we expected a more constructive Serbian approach on Kosovo, the Ambassador stated. Indeed, that is what Jeremic had promised western leaders. Instead, Jeremic's continued unyielding stance was having a negative impact on the willingness of both Washington and the European Union to be flexible on other issues; it was also raising questions about why President Tadic tolerated such an antagonistic policy line, the Ambassador added.

13. (C) Cvetkovic underscored the importance that Serbia attaches to good relations with the United States, promising to share U.S. concerns with President Tadic. He expressed interest in meeting with the appropriate officials from the Obama administration, possibly during an already-planned late March visit to Washington to meet with World Bank and International Monetary Fund officials. (Note: Cvetkovic is a modest personality with a background in economics, and is more inclined to address economic issues than political ones.) Cvetkovic expressed the hope that the new U.S. administration would take a more balanced approach to its

Balkan policy, rather than focusing solely on Kosovo, and that it would be willing to take concrete steps to acknowledge the progress that Serbia has made.

¶4. (C) The Ambassador concurred that the U.S. was looking in the Balkans for regional solutions to regional problems, from electricity grids to security challenges, which could not be dealt with effectively on the national level. He welcomed Cvetkovic's broad approach and underscored the need for Serbia to deal with its neighbors as a responsible partner for stability, as it had during the recent gas crisis when it provided crucial supplies to Bosnia-Herzegovina (Ref A).

Impact of Economic Crisis

¶5. (C) The Ambassador noted that the economic downturn made it more difficult for the U.S. to help Serbia attract foreign direct investment; nonetheless the U.S. would continue to help Serbia complete key institutional reforms. U.S. support for legislative reform and small- and medium-sized enterprises will continue, but it was unrealistic to expect massive new foreign investment. He praised Cvetkovic for his tough message to the Serbian public that hard times had arrived. The Prime Minister said he anticipated low GDP growth, thus declining government revenue which would force either higher deficits or cuts in government spending. Cvetkovic said he intended to explore the possibility of increasing the amount of assistance from the World Bank and the IMF during his upcoming Washington visit.

¶6. (C) The Serbian government intends to invest its limited

BELGRADE 00000125 002 OF 003

discretionary funds into infrastructure and employment, according to Cvetkovic; he commented that the government's efforts to deal with the crisis had already raised two fundamental questions in his mind regarding the proper limits for state involvement in the economy and whether the world was in for a new period of economic nationalism. Cvetkovic cited Deputy Prime Minister Dinkic's recent announcement that the government would invest in the RTB Bor copper facility (Ref B) as an example of government over-stepping its bounds in a market economy, drawing a distinction between the obligation to prevent fundamental services from collapsing and the need to allow non-viable businesses to fail. If the government invested in certain businesses without clear reasons, there would be allegations of favoritism, Cvetkovic said; if it invested across the board, that would mean the return to a planned economy.

¶7. (C) The Ambassador emphasized that the crisis was an opportunity for Serbia to make fundamental decisions, such as eliminating market-distorting subsidies and forcing major businessmen to play by the same rules as others. Cvetkovic said he wanted Serbia's "tycoons" to become more publicly acceptable because they represent such a large part of the economy. He told the Ambassador that he planned to expand his newly formed Economic Advisory Council, which is currently composed of five "pure economists," to include an additional five to seven representatives from industry groups such as the Serbian Chamber of Commerce, the U.S. Chamber of Commerce, the Foreign Investors' Council, and Privrednik (a grouping of Serbia's most influential businessmen). The Ambassador welcomed the news and informed Cvetkovic that he consistently tells the members of Privrednik that they must support reform if they want the expanded economic opportunities that come with European Union membership; progress on property restitution and anti-corruption, for example, is crucial.

¶8. (C) Cvetkovic emphasized the importance he attaches to attacking the problem of corruption at the grass roots. While the press often focuses on egregious violations by high-ranking officials, Cvetkovic said that the most fundamental problem was the fact that many laws and

regulations gave bureaucrats broad discretion in how to apply them. This allowed corruption to run rampant in areas such as the issuance of construction permits and public procurement, he added. The Prime Minister said that he planned a comprehensive review of legislation to eliminate these types of loopholes.

Need for Working Parliament, Political Stability

¶9. (C) Cvetkovic also predicted that the current effort to revise the Parliament's Rules of Procedure would succeed in unblocking the legislative process in the near future (Ref C). Although additional reforms were needed, as well as a new Law on Parliament, Cvetkovic told the Ambassador that he had recently decided that it was better to make the essential changes to the Rules of Procedure now - to prevent the opposition from blocking the agenda for days on end - and pursue the other changes later, after the Parliament was working more efficiently.

¶10. (C) A report released last week by the government's European Integration Office had highlighted the degree to which the blockade of Parliament has slowed down Serbia's progress toward the European Union, Cvetkovic noted. If the situation did not improve in the next few months, the Prime Minister said, the government would face serious domestic political difficulties from an angry public that had voted for a European future. The fact that the European Union had done nothing tangible to recognize the arrest of Karadzic or Serbia's unilateral implementation of the Interim Trade Agreement was providing the opposition - even those parties that had campaigned on an anti-EU platform - with ammunition to attack the governing coalition, he said. The Ambassador stressed that Serbs needed to address their own role in qualifying for EU membership rather than expecting the EU to do the work for them. Serbs had work to do - and he hoped Serbia would avoid needless new elections and use a couple of years of stability to make the current government function more effectively.

Other Issues

BELGRADE 00000125 003 OF 003

¶11. (C) The Ambassador informed Cvetkovic that we were working closely with the Ministry of Justice on the case of Miladin Kovacevic, the fugitive basketball player charged with assaulting Bryan Steinhauer in New York last May (Ref D), and anticipated positive developments in the near future. The Prime Minister was optimistic that the government would approve compensation for the Steinhauer family during its February 12 session.

¶12. (C) Russia can play a constructive role in supporting Serbia's European aspirations, the Ambassador noted, as long as it plays by the same rules as other partners. The United States is not in competition with Russia for influence in Serbia. Cvetkovic commented that local attitudes toward Russia depended in large part on how the United States treated Serbia; if it can be confident of U.S. support, it will feel less need to rely on Russia.

¶13. (C) The Ambassador told Cvetkovic that the U.S. was watching the progress of the draft Vojvodina Statute (Ref E) with interest, but would not comment on it publicly as it was purely a domestic political issue. Cvetkovic expressed optimism that differences over the Statute would be resolved in the near future, once a new law transferring certain authorities to the autonomous province of Vojvodina was completed.

Comment

¶14. (C) President Tadic calls the shots in Serbia. Nonetheless, despitess the limits of his power, Prime Minister Cvetkovic is a refreshing reminder that the Serbian government is not focused solely on Kosovo, but rather is fully cognizant of the coming economic crisis and eager for help in addressing it. Cvetkovic listed his two priorities as Europe and prosperity - precisely the priorities we share.

We suggest engaging Cvetkovic on these terms, and not leaving the field of bilateral relations to the unhelpful grandstanding of Foreign Minister Jeremic. Should Cvetkovic bring this discussion to Washington, it would also strengthen those in Serbia who hope to pursue the economic goals that are crucial for stability in Serbia and the region. End Comment.

MUNTER